
NOTES TO THE FINANCIAL STATEMENTS

NOTE 20: SUBSEQUENT EVENTS

Litigation

W.D. Goldston, Jr., James E. Harrington, and citizens, taxpayers and bondholders similarly situated v. State of North Carolina and Michael F. Easley, Governor. On November 14, 2002 a former Secretary of the Department of Transportation and a retired State Senator sued the Governor and the State of North Carolina for using Highway Trust Fund money in the State's General Fund. On February 5, 2002 Governor Easley issued Executive Order No. 19. The Order transferred \$80 million from the Highway Trust Fund to the General Fund for purposes of balancing the State budget. Also, the General Assembly in its 2002 Special Session authorized the transfer of \$80 million from Highway Trust Fund to the General Fund. Finally, the General Assembly authorized an additional \$125 million from the Highway Trust Fund to the General Fund during fiscal year 2003 in the form of a loan. The General Assembly plans to transfer funds from the General Fund back to the Highway Trust Fund during fiscal years 2004-2005 through 2008-2009 including interest at the net rate of return generated by the State Treasurer's Short Term Investment Fund. The suit alleges that actions of the General Assembly regarding the transfer of certain funds from the Highway Trust Fund to the General Fund constitute a borrowing by the State of Highway Trust Fund's cash surplus and are unlawful and unconstitutional. The lawsuit requests a declaration that taxes collected for purposes of Highway Trust Fund expenditures cannot be used for other purposes.

The North Carolina Attorney General's Office believes that sound legal arguments support the defense of this action.

North Carolina General Obligation Bonds

On December 4, 2002, the State sold \$125.280 million of general obligation bonds consisting of \$18.8 million Clean Water Bonds, Series 2002A, \$50 million Natural Gas Bonds, Series 2002A and \$56.480 million Refunding Bonds, Series 2002A. Also, on December 11, 2002, the State sold \$499.870 million of Variable Rate Refunding Bonds, Series 2002B, 2002C, 2002D, 2002E, and 2002F. These Bonds are dated December 1, 2002 and will bear interest from that date. Interest on the Bonds will be payable semiannually on each June 1 and December 1, commencing June 1, 2003. Simultaneously with the closing of the variable rate transaction, the State synthetically fixed the interest rate on these bonds by entering into swap agreements. The bonds will mature, subject to the respective optional redemption provisions as follows: Clean Water Bonds will mature from June 1, 2003 through 2019 with amounts varying from \$105,000 to \$4.9 million. Natural Gas Bonds will mature from June 1, 2004 through 2008 in the amount of \$10 million each year. The fixed rate Refunding Bonds will mature June 1, 2003 through 2011 with amounts varying from \$2.3 million to \$10.4 million. The variable rate refunding bonds will mature from June 1, 2012 through 2019 with amounts varying from \$22.6 million to \$139.9 million.